

WHITE PAPER

IDC's Cost-of-Change Framework: How IT Planners Weigh the Costs and Benefits of Change

Sponsored by: Hewlett-Packard Company

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August 2003

EXECUTIVE SUMMARY

As today's enterprises navigate new business challenges, improvements in information technologies continue unabated. The careful evaluation and integration of relevant advances into the overall IT strategy are critical as business imperatives drive the degree of IT change. IDC believes that IT strategic planning demands a complex balance of deriving the greatest possible value from existing IT assets and introducing necessary transformations within the enterprise infrastructure to efficiently meet increasing IT demands.

IDC has created a new IT Cost-of-Change Framework to assist IT managers in better understanding key IT planning issues. In-depth interviews with senior IT planners validated IDC's Framework, which is oriented around the IT system life cycle. The Framework provides a detailed inventory of activities that contribute to the cost of IT change. Of special interest is the cost of shifting from one system supplier to another. IDC found that most IT planners are reluctant to make such a shift without very clear business advantages because changing system suppliers leads to increases in staff training costs, changes in established operational procedures, and project risks.

Today's IT investments must yield improvements in *business value*, which is the collective term for the many ways that enterprises measure success. Profitability and growth in market share are two common examples. Business value also includes softer metrics, such as customer satisfaction or product quality. Successfully attacking a new market, developing a new distribution channel, or bringing a product to market quickly are other examples of business value. In the context of IT investment, the new focus on business value has resulted in a significant shift to metrics outside the IT organization. For example, internal metrics, such as system response time or cost per megabyte of storage, must be linked to enterprise business value measures.

IDC developed a related model for understanding how the degree of IT change influences three key planning variables — cost of change, business risk, and business value.

- ☒ No or low investment in IT minimizes the cost of change but only at the expense of increasing competitive risk while not contributing to improved enterprise business value.
- ☒ Radical changes in IT systems — for example, wholesale replacement of large legacy systems with a new system architecture and server provider — trigger high costs and high risk and could diminish IT's contribution to business value if they are not carefully planned and managed.
- ☒ In the middle range of IT change is the tactical addition of IT resources to existing systems. Well-planned incremental investments lead to maximum business value contribution, affordable development cost, and an optimal level of business risk.

Hewlett-Packard's corporate strategy, which aims at cultivating an Adaptive Enterprise, aligns with IDC's research findings regarding the needs of IT planners. HP can provide IT managers with a detailed description of the evolutionary paths and provide tools and services needed to expedite the technology transitions that lie ahead. As part of its evolution solution packages, HP is working to solve potential needs associated with an evolving IT infrastructure.

IT investments, like most other business investments, are increasingly evaluated by their contribution to business value. This is a natural effect of the maturing of information technology. However, aligning IT with measures of overall business success will often present new challenges for IT planners and IT suppliers. IDC suggests that asking the right questions in advance about life-cycle cost, business risk, and business value will provide enterprises with new opportunities to deploy IT wisely.

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INTRODUCTION: THE STATE OF IT

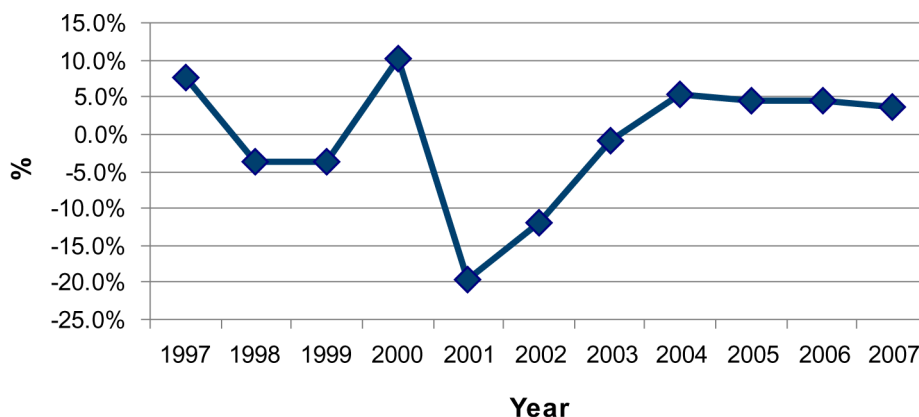
Recent trends on the supply side and the demand side of the IT market set an important context for understanding IDC's IT Cost-of-Change Framework. While some of the trends are technology based, most are concerned with new business processes for weighing IT investments. Suppliers and consumers are together developing more rigorous methods for understanding costs and benefits of the IT infrastructure as the years of double-digit ebusiness and IT hyperinvestment end, and more traditional slower growth is expected.

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IDC research on customer spending on server hardware is shown in Figure 1. After dramatic reductions in customer spending on server hardware (-20% in 2001 and -12% in 2002), IDC forecasts a compound annual growth rate of approximately 5% for 2004 through 2007.

FIGURE 1

WORLDWIDE PERCENTAGE GROWTH OF SERVER CUSTOMER REVENUE, 1997-2007



Source: IDC, 2003

DEMAND SIDE

The global economic downturn continues to slow demand for IT products and services. Users delay new purchases and extend the life of their current equipment. Capital expenditures must survive exacting financial analyses as enterprises weigh the overall benefit of new and refurbished IT systems against the status quo. Operating expenses are also given careful scrutiny with an eye to relaxing service level agreements if cost savings can be realized without significantly increasing the risk of system failure and the cost of system downtime. Rather than assuming 110% of last year's IT budget is available, IT directors will likely be given decreased budgets until signs of an economic recovery are clear.

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Enterprises demand justification for IT investment in terms of business value indicators. Business value indicators are increases in revenue, profitability, or market share for the enterprise. Business value may also be found in increased customer satisfaction or improved quality of products and services, although these values are more difficult to quantify. Most important for the IT planner, however, is that business value metrics lie outside the IT department, and success in affecting these metrics is a joint effort between IT and line-of-business managers.

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The shift to business value marks a third phase in IT planning. Early on, decisions were made to invest in *technologies* (e.g., processing, storage, network, and software). As IT products and services matured, the IT planner's focus shifted to investments in *solutions* to business problems and processes. Built upon infrastructure, these solutions were tightly coupled with the basic activities of the enterprises (e.g., supply chain management, inventory management, and customer care). Now, with the further maturation of IT, the metrics indicating *business value* have emerged as the criteria that guide IT planners.

IDC notes that demand-side concerns with IT cost control have amplified the importance of identifying both direct and indirect costs and benefits for both capital and operating expenses. While organizations have long recognized that IT systems can affect a wide audience of enterprise users in both positive and negative ways, IT planners are under pressure to identify and quantify both costs and cost savings. In short, there is today a greater appreciation for the many complex elements that constitute the total cost of IT change.

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SUPPLY SIDE

On the supply side, IDC views consolidation as a major trend for all IT subsystems (e.g., servers, storage, networks, and software). Reflecting the declared needs of their customers, new products and services are coming to market to support the consolidation of IT resources. Suppliers intend these new consolidated IT resources to be easier to reallocate, offer improved utilization and higher availability, and to be less costly to administer.

Utility Computing and Public/Private Utilities

IDC defines utility computing as the provisioning of IT resources to support business workloads on an as-needed basis. Further, IDC believes that a comprehensive utility computing environment is emerging now and, over the coming years, suppliers and consumers will continue to refine and extend the requisite technologies. IT consolidation is a necessary precondition for shifting to a utility model, and virtualization — the ability to automate resource management and mask complexity with software — is a key enabler.

IDC believes that the utility model will be deployed in two complementary ways: Initially, enterprises will reengineer their datacenters and IT infrastructure to support computing within the organization as a private utility. Later, third parties will develop IT services that they provision to enterprises as public utilities. IDC's public/private utility distinction explicitly links the business and technical models for telecommunication and power utilities to next-generation IT services.

Consolidation means rehosting applications and workloads to fewer, larger servers and storage systems. As an initial step, suppliers are encouraging their customers to detach storage from servers, pool server resources, and shift to networked storage. Similarly, suppliers are offering servers and operating environments equipped with greater partitioning capability, both logical and physical. Software and management tools that assist in porting workloads to these new environments are offered to accelerate the transition. Experience gained from internal projects and early-adopter activities is being codified in new consulting services aimed at streamlining the transition to consolidated IT systems and reducing IT operational risks.

Finally, IT consumers continue to enjoy year-over-year price-performance improvements that make the transition to utility computing increasingly attractive. Driven by supply-side mergers and acquisitions, component and system costs continue to decrease due to economies of scale. Thus, suppliers continue to appeal to IT planners that augmenting existing IT systems with new higher-performance components can be accomplished at increasingly lower costs.

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THE IDC IT CHANGE SPECTRUM

When considering the rate of change — how quickly to deploy new environments, or to reengineer the current IT infrastructure — a number of variables need to be considered. To assist in conceptualizing this problem, the IDC IT Change Spectrum is shown in Figure 2. IDC notes that the rate of change varies from no change at all to the radical introduction of new IT systems. Cost of change, business risk, and business value are affected by the rate of IT change, as follows:

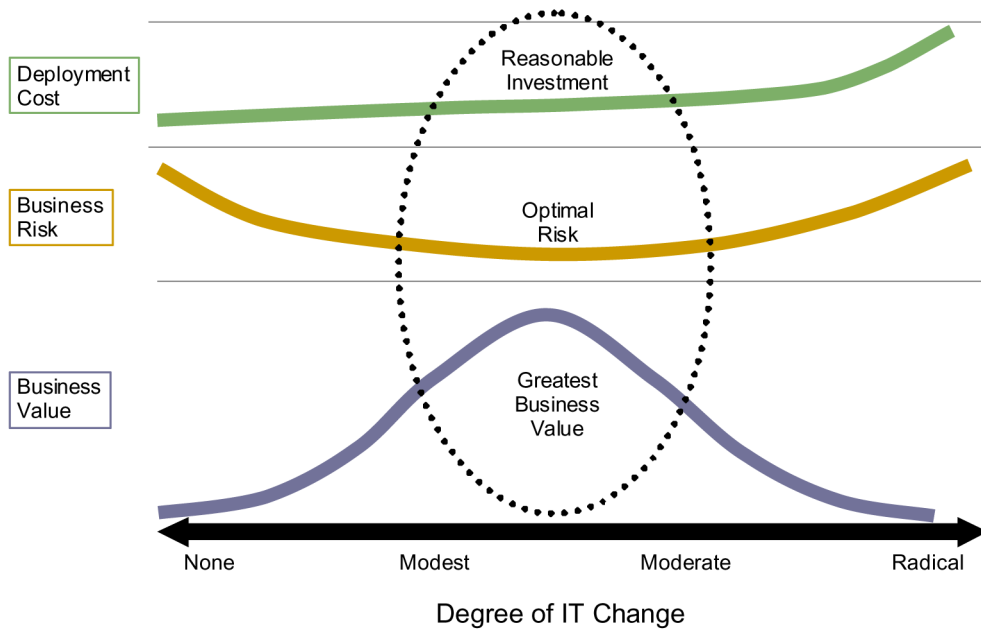
- ☒ The cost of change is minimized when existing IT systems remain in place, and it rises with increasing rates of change. As many enterprises learned first hand during the ebusiness frenzy of the late 1990s, radical IT change elevates the cost curve sharply when organizations purchase the newest technologies, compete for the few technicians capable of deploying them, and struggle to integrate and test first-generation products.
- ☒ Business risk is highest when IT systems undergo radical change. Cost overruns and business disruption are common problems associated with too high a rate of change. Doing nothing, however, carries the risk of losing market share to competitors that successfully leverage IT investments to their benefit. To minimize business risk, then, IT planners most often seek the optimal rate of change in the modest to moderate range. At its core, strategic IT planning means balancing the risk of no change versus the risk of too high a rate of change to find a level acceptable (optimal) to the organization.
- ☒ IDC believes that IT's contribution to business value, which is, after all, the most important variable, rises as IT planners make incremental changes in existing IT systems. Minimal IT change results in minimal return, or perhaps negative return. Radical IT change is equally unlikely to impact the enterprise's bottom line in a positive manner due to high risk and high cost. Modest to moderate IT change — for example, investments in streamlining an important customer-facing business process — hold the greatest likelihood of improving business value for the enterprise.

Cost overruns and business disruption are common problems associated with too high a rate of change.

IT's contribution to business value rises as IT planners make incremental changes in existing IT systems.

FIGURE 2

IDC'S IT CHANGE SPECTRUM



Source: IDC, 2003

IDC's IT Change Spectrum cannot weigh with precision the many factors that affect a particular enterprise investment decision. Similarly, the Change Spectrum cannot weigh precisely the cost and risk reductions that suppliers hope to provide with best-practice methods and migration tools. The IT Change Spectrum does suggest, however, that incremental change in the middle range is the sweet spot for most IT investments.

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IDC'S IT COST-OF-CHANGE FRAMEWORK

IDC's IT Cost-of-Change Framework is a taxonomy of costs and benefits associated with the deployment of IT systems. The Framework was drafted by IDC analysts who speak with IT practitioners on a regular basis about their successes and challenges. The framework was validated by developing an interview protocol that systematically reviewed each element in the framework.

IDC executive interviewers conducted in-depth interviews with IT professionals who have direct responsibility for IT planning and who have actively participated in IT change projects for their organizations. The organizations were drawn from different industries (e.g., telecommunications, financial services, manufacturing, transportation, retail) and were primarily midsize and larger organizations.

THE SIX-STAGE IT SYSTEM CHANGE PROCESS

IDC's Cost-of-Change Framework follows a six-stage IT system life cycle, as shown in Figure 3. Activities, costs, and benefits for each of the stages are as follows:

1. **Prepurchase planning** stage is conducted by IT staff in conjunction with line-of-business managers, and its outcome is reviewed by corporate leadership. The cost to the organization is primarily in-house staff time. The prepurchase plan contains estimates of life-cycle costs and benefits for different IT investments. The prepurchase plan also contains technical and performance targets, such as estimates of response times, capacities, and maintenance requirements.

IDC interviews with IT planners confirmed that the prepurchase planning stage is growing in importance and complexity and is a time-consuming process involving input from many individuals outside the IT organization. For some financial reporting systems, recent regulatory legislation adds new concerns within and outside the IT department. As expected, in addition to traditional estimates of cost, IT planners and their business colleagues must now identify and quantify benefits that should result from IT change projects.

The prepurchase planning stage is growing in complexity and is a time-consuming process involving input from many individuals outside the IT organization.

2. **New product acquisition** is the purchasing decision stage when final allocation of costs for hardware, software, third-party services, and in-house staff are confirmed. The new product acquisition stage concludes with the choice of vendors and the purchase of building blocks to be assembled into an IT system.

Our research indicated that the final decision to acquire new products brings to the forefront whether to remain with current suppliers or move to products provided by other suppliers. Planners told IDC that when weighing the advantages of remaining with current suppliers (e.g., maintaining the many ongoing activities, such as training, support, procurement) against the advantages of new suppliers, staying with current suppliers is usually indicated. Continuity in hardware eases the task of adding resources incrementally and lessens the training costs for IT staff.

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3. **Postpurchase/preinstall** stage is dedicated to preparing for the actual installation of the new system. Training and planning, both within the enterprise and with suppliers and consultants, are the primary activities as the system is configured in detail.

Driven in part by the goal of consolidating IT systems, IDC's IT planners reported that the postpurchase/preinstall life-cycle stage is of growing importance. Changing a part of the overall IT environment means considering with care the impact of that part on other applications and the IT infrastructure. "It's the connections with other systems that are difficult to plan for," indicated the manager of IS for a manufacturing company.

IT planners reported that the postpurchase/preinstall life-cycle stage is of growing importance.

4. **Installation** is the process of deploying the new IT system. The installation stage includes costs associated with downtime, system testing, and the porting of software to new operating environments. The outcome of the installation stage is a system put into production.

IT planners should be especially aware of this stage of the change process, as multiple interviewees identified installation as the most costly stage in the life cycle. IT planners told IDC about the challenges of integration, the time spent porting data from old systems to new ones, and, especially, time spent testing. "Testing was the most expensive and took the most people," IDC learned from the CTO of a financial services company. "We tested capacity and performance, and we also included business unit testing. Lots of people outside the IT department were involved."

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5. **Ongoing operations** costs include system upkeep, maintenance and repair, and the cost of a professional staff that monitors system performance, reallocates system resources, and installs upgrades as necessary. During ongoing operations, the business and technical benefits of the system can be assessed empirically to see whether they match the forecasts prepared in the prepurchase planning stage. There is no outcome to the ongoing operations stage, per se, until a decision is made to retire the IT system.

Over the entire life cycle of an IT system, the ongoing operations stage was cited as the largest cost and was sometimes the motivation for IT change. IDC's practitioners commonly cited the cost of 24 x 7 monitoring and the annual hardware and software upgrades as prime contributors to ongoing operations cost. For the system architect at a commercial office supply distributor, however, consolidation reduced costs.

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"We went from supporting 43 servers to supporting 2 servers. Even with nine domains (partitions) across the two servers, our maintenance targets are fewer by a factor of 5 to 1," the director of operations for a telecommunications equipment provider told IDC. "The cost of maintenance was high for our eight-year-old systems, and the cost of new servers was low. We could see immediate savings in maintenance."

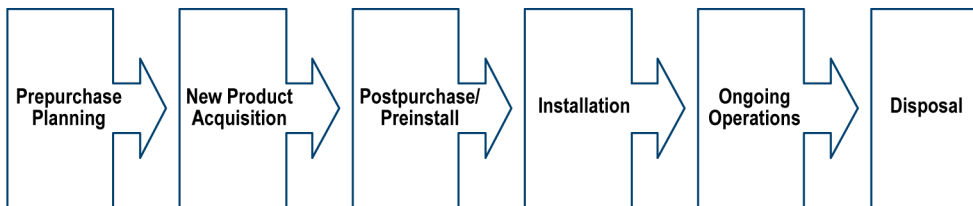
6. **Disposal** is the final stage and includes the cost of removing the IT system from the enterprise and reallocating the space, power, and cooling resources to other IT systems. In some cases, retired IT systems can be reallocated to other non-mission-critical workloads or sold or even donated for a tax write-off.

For IT planners who remained with the same supplier, disposal most often meant trading in the old system hardware. Some companies redeployed the old system to non-mission-critical workloads and others kept existing systems on standby. Generally speaking, disposal was of least concern to our IT planners and was consistently ranked as the lowest cost stage in the system life cycle.

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FIGURE 3

THE SIX-STAGE IT SYSTEM LIFE CYCLE



Source: IDC, 2003

CATEGORIES OF EXPENSE AND BENEFIT

The Cost-of-Change Framework provides a categorization of specific expenses that accrue at each of the six stages. The framework also categorizes specific business value metrics as well as technical improvements expected during the system change process.

Table 1 details these components of cost and business value and provides a framework against which IT planners can assess the cost of change.

TABLE 1	
DETAILED CONSIDERATIONS IN THE CHANGE PROCESS FOR IDC'S COST-OF-CHANGE FRAMEWORK	
Stage	Cost and Benefit Categories
Prepurchase planning	<ul style="list-style-type: none"> • Design new network architecture • Plan for downtime vs. parallel systems • Research software availability/porting • Purchase research (companies, technologies, solutions, interoperability) • Testing • Training • Understanding changes to maintenance programs • Plan for redeployment or disposal of old equipment • Financing (lease vs. purchase) • Forecast of business value impact
New product acquisition	<ul style="list-style-type: none"> • Hardware and software purchase • Porting of existing software: operating system, applications from primary hardware vendor, ISV software, and middleware • New tools • Storage, networking/interconnects, and peripherals • Changes to maintenance programs • Warranty • Training on procurement procedures for a new vendor
Postpurchase/preinstall	<ul style="list-style-type: none"> • Policy development • New process and procedure for support: internal and vendor/external • Testing • Training • Configuration
Installation	<ul style="list-style-type: none"> • Deploy • Planned downtime • Cost of parallel systems • Risk of additional downtime • Testing: unit, integration, system, and business unit tests • Database and application porting • Training
Ongoing operation	<ul style="list-style-type: none"> • Support • Administration • Monitoring • Purchase and perform upgrades: hardware and software • Training • Facilities: footprint, heating/cooling, power • Business value impact
Disposal	<ul style="list-style-type: none"> • Redeployment • Disposal — scrap or aftermarket resale

Source: IDC, 2003

IDC's research confirms our expectation that IT organizations vary in their concern for stages and categories in the Cost-of-Change Framework. In the prepurchase planning stage, for example, one IT planner emphasized that direct operating cost savings

weren't a driver, but rather the risk and cost of downtime motivated the decision. An IT director at a medical equipment company told IDC that the prepurchase decision making was primarily driven by the view that a nearly obsolete nonstandard system needed to be ported to the new standard corporate operating environment.

The impact of server-change categories and their attributes tend to vary by organization. This would be expected, considering the variability relative to scope, type of organization, and differing business focus of companies we studied. No single organization is the same as another. Some trends, however, are apparent.

- ☒ Nearly all IT organization view new product acquisition and installation as the two most impactful of the six categories when taking into account both direct and indirect costs. In companies performing a large server consolidation, new product acquisition and installation are viewed as about equal in terms of impact.
- ☒ In the cases of companies performing an IT transition (i.e., moving an application or workload onto a new server for performance or technical reasons), new product acquisition is viewed as having a greater impact on cost than installation. In the cases of companies replacing a server, postpurchase/preinstall is viewed as being the next most impactful category.
- ☒ Closely trailing these two cost categories is the expense of ongoing operations. Our IT planners cited license renewal fees, operations staff expense, and the ongoing modification of applications to accommodate changing business needs as costs associated with ongoing operations.

IT CHANGE SPECTRUM AND THE COST-OF-CHANGE FRAMEWORK

General themes emerged in IDC's Cost-of-Change Framework research that solidify confidence in the IT Change Spectrum and its implications for IT planning. Our four key findings focus on indirect and direct costs, on the issue of remaining with a legacy vendor, and on optimizing risk.

- ☒ Direct cost of new equipment rises in linear proportion to the degree of change and does not vary substantially between suppliers. Our IT planners told us that the direct cost of servers for a given capacity is about the same. Put differently, price/performance ratios are similar across suppliers and product lines. And, the direct cost of new packaged software, new storage, and new network components is about equal across suppliers as well.

"Competing vendors are pricing hardware similarly," the design architect for a telecommunications services company explained to IDC. "Quite honestly, from a technology perspective, you could safely flip a 3-sided or 4-sided coin to choose a hardware supplier."

- ☒ Indirect costs, such as staffing, training, management, and facilities costs, rise sharply with an increased degree of change. Our IT planners uniformly indicated that midrange investments in change generally lead to a smaller indirect costs across all stages in the life-cycle model.

Our IT planners attributed low cost to familiarity with a product constellation, which minimizes training costs, stabilizes the number of skill sets required, and focuses management attention on the same set of trusted suppliers. As the degree of change increases and the enterprise plans to assimilate products and technologies with which it is not familiar, these indirect costs rise sharply.

- ☒ The cost of switching suppliers is significant. Our IT planners cited a multitude of indirect costs that accrue when bringing a new supplier on board. For some, the concern is that IT staff and business users require training. For other planners, contract terms and conditions need to be constructed afresh. Integrating new products, assimilating new operating environments, and learning or creating new maintenance and operating procedures all make the cost of changing vendors significant.

"Changing vendors would have had the greatest impact on hardware acquisition," the systems manager of a transportation equipment company explained to IDC. "We would have spent more time and effort in the prepurchase planning stage. We designed our infrastructure with redundancy in mind." The design architect at a telecommunication service company told IDC, "With one supplier providing all infrastructure, we can add capacity incrementally as we need it."

- ☒ Finding an optimal level of risk is a major concern when planning and executing IT change. Our IT planners agreed that risk was not easy to measure and that avoiding all risk was simply impossible. Costs associated with system failures and outages were often the basis for assessing the size of the investment to offset IT operational risk.

"Risk played a very significant role," explained the manager of information systems for a manufacturing company. "We cannot afford to have a piece of hardware go down that provides us the ability to build product for our customers and ship it."

"We do risk assessment at every step," reported the design architect for a telecommunications services company. "And we get sign-off from our stakeholders that they are satisfied with the identified risk and the risk mitigation strategies we have in place."

IDC ANALYSIS: COST OF IT CHANGE

IDC's Cost-of-Change research provides a strong foundation for IT planners who are weighing IT investment decisions.

Failure to invest in IT is risky and inefficient. IDC learned from IT planners that operating costs rise rapidly as systems age. A failure to make capital investments in new IT systems can lead to higher operating expenses along with a degradation of IT services. Return on investment (ROI) and total cost of ownership (TCO) analyses can and do show that the right investments in IT can reduce overall cost and improve the performance or availability of critical business systems. Adopting midrange rates of IT change is often optimal. Most of the time and for most organizations, change should be and is incremental. A litany of practical reasons emerges when studying the host of activities that populate IDC's Cost-of-Change Framework. These reasons were summarized in Figure 2, the IDC Change Spectrum, by our observation that midrange rates of change call for reasonable levels of investment, optimize business risk, and maximize IT's contribution to business value metrics.

Adopting midrange rates of IT change is often optimal.

More extreme rates of change are warranted under certain scenarios. For example, IT planners may be motivated to move more radically when an enterprise acquires a new division with IT systems that follow a different operating environment standard. The cost of maintaining dual skill sets and struggling to integrate different environments may overwhelm the cost of a complete migration for the new division. In this situation, radical discrepancies in IT architecture will justify more radical degrees of change.

Continuity in supplier relationships is directly related to IT costs. Enterprises may make the strategic decision to move quickly from a single or a multivendor environment to an environment supplied by two trusted vendors. IDC research has shown that an IT department usually does not want to rely on one single vendor. Converging on just two vendors should reduce risk and create a more manageable IT environment. IDC notes that such an action is most often driven by long-term IT strategy.

Emergent needs can require radical IT change. Discovering that it is not practical to make a collection of small Windows Web servers resilient could result in an urgent plan to consolidate workloads on a larger, high availability server, for example. In IDC's research, however, several IT planners had factored consolidation into their architecture, but not with great urgency.

Consistent with IDC's general views, the move to utility computing, which begins with a shift to consolidated IT servers, storage, and network systems, is under way and is a gradual process.

HP Addresses the Cost-of-Change Issues

Hewlett-Packard's strategies are aligned with IDC's Cost-of-Change Framework and the implications of the IDC IT Change Spectrum model. At the highest level, HP's Adaptive Enterprise strategy aims to cultivate IT and business agility by providing for incremental increases in system capability, capacity, and availability.

HP is addressing cost-of-change issues with products, programs, and services under four broad headings — services and tools, education and training, financial incentives, and partnerships:

- ☒ From self-service resources to full-service consulting, HP has developed basic guidelines, planning checklists, and toolkits to accelerate and streamline the evolution of existing HP systems. Architecture workshops are offered at global centers of expertise. Specific, targeted consulting is available on topics such as the shift to Itanium processors, new networked storage, and HP's converging operating environments.
- ☒ HP's training offerings include acclimation training for customers new to HP-UX and detailed planning and execution guides for evolution planning. Conceptual workshops are offered at no cost (to existing customers) and second-level courses are discounted. Fee-based training for in-depth topics is also available.
- ☒ Financial incentives (varying by region) at HP take the form of trade-in, trade-up, and test-drive programs for servers, software, and storage sub-systems. At the system level, HP offers deferred leasing, sale/lease buy-back, and bundled leasing options in addition to rental programs.
- ☒ HP continues its commitment to cultivating top industry independent software vendors (ISVs) as they port their products to servers using the Itanium processor. The ecosystem of software products that are tested and ready for Itanium processor-based production environments continues to grow and mature.

RECOMMENDATIONS FOR SUPPLIERS AND IT STRATEGISTS

We expect that IDC's Cost-of-Change Framework and the Change Spectrum model will provide guidance for IT planners as they work to create deeper and more precise understandings of the cost of IT change, the optimal levels of operational risk, and the important new links to enterprise business value. IDC's key recommendations for IT strategists are as follows:

- ☒ Use IDC's Cost-of-Change Framework as a checklist of sources of cost at each stage in the system life cycle. Pay particular attention to indirect costs. By their very definition, indirect costs loom large, can be difficult to isolate, and are easily overlooked. Knowing where to look is a good first step in forming a more accurate estimate of total IT expenses.

Use IDC's Cost-of-Change Framework as a checklist of sources of cost.

☒ Instigate a thoughtful review of business, financial, and IT operational risks. Risk, like indirect cost, can be difficult to scope and measure. The degree of risk is related to well-known IT indicators. Estimates of the cost of downtime, for example, provide a foundation for understanding and mitigating IT operational risk.

Instigate a thoughtful review of business, financial, and IT operational risks.

☒ Develop methods for estimating the contribution of investments in IT to enterprise business value. Locate measures of business value from IT's line-of-business customers and from the corporate income statement and balance sheet. Work to understand IT's contributions to business value and borrow methods used by other organizations in the enterprise that have traditionally justified their investments in business value terms.

Develop methods for estimating the contribution of investments in IT to enterprise business value.

IDC believes that with a laser focus on the variables of cost, risk, and business value, IT planners will ask the right questions and provide enterprises with extraordinary new opportunities to deploy IT wisely.

To underscore the magnitude of today's IT opportunities, consider the bad old days of IT as a back-office cost center. IT's contribution to the enterprise was limited to computing financial statements on schedule for as little investment as possible. As IT has moved onward to permeate the enterprise and outward to customer-facing and supply-chain applications with trading partners, it was inevitable that IT should be judged as an equal contributor to enterprise success along with sales and marketing, research and development, engineering and manufacturing, and finance.

CHALLENGES

Both IT system planners and IT system suppliers face challenges associated with the management of IT change. System planners must demonstrate to business executives that they understand the costs, risks, and likely business value contributions for proposed changes. System planners must develop the skills needed to estimate the value of change and develop methods for quantifying and explaining their analyses. We believe that the IDC Cost-of-Change Framework is a first step in addressing these challenges, and used during the planning process, it should lower some of the fear and uncertainty associated with change.

HP and other system suppliers confront a related set of challenges. In the face of change, coupled with intense competition for sparse IT investment dollars, system suppliers must find ways to convince IT planners that sticking with an existing supplier often makes good sense. Working with IT planners to help them understand the costs of change as well as developing and publicizing strategies and programs for mitigating these costs are strong initial steps in overcoming these challenges.

CONCLUSION

IDC encourages IT planners to organize their thinking about the cost of IT change with IDC's new IT Change Spectrum and our Cost-of-Change Framework and to consider HP's strategies and offerings in these contexts. Estimating cost, risk, and business value is a difficult process that should lead to more effective deployment of IT systems aligned with enterprise values.

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